

A Look Forward and Back

Why is the Utah economy performing the way it is?

Every year, Trendlines dedicates its January/February issue to the theme, “A Look Forward and Back.” This “look” refers to the Utah economy—namely how it performed last year, and what to expect for this year. The discussion generally revolves around the concept “what”—what happened, what to expect. This year, I would like to deepen that assessment, instead addressing the “why”—why is the Utah economy performing the way it is?

The “what” would show that the Utah economy had another stellar year in 2007. Job growth was very robust at 4.5 percent and the unemployment rate remained in the extremely low 2.5-percent range. These point to a booming economy with ample job creation and abundant opportunities. Going into

this year, that picture should change little. Job growth will probably subside just a bit, as time has a way of tempering economic strength, but with no change anticipated in the unemployment rate, the 2008 economy should feel just like the 2007 economy, the only difference being that we might have one negative to watch in 2008—the housing market—whereas there were no negatives last year or the two years before that. Yet even if this emerges, a slower housing market should have only a minimal impact upon the Utah economy.

This year is set to continue the economic boom that began after the early-2000s recession. It’s four years and counting. So with this prolonged economic accomplishment—and one that contrasts with the remainder of the national environment—I feel it is prudent

to understand why the Utah economy is doing what it is doing, rather than just quantifying what it is doing. In this current boom, you cannot detach one year from another. It’s all part of a bigger cycle. Therefore, let’s explore why these multiple years are performing as one.

Putting Utah’s Performance in Perspective

The defining characteristics of the current boom are the hyper-low unemployment rate and the large amount of construction activity. This burst not only creates more construction jobs, but also underscores the building boom in Utah and the further expansion of the economic foundation. Both long-term and short-term factors are at play. First

The economy has changed, and that change has opened the door for expanding population and commerce in the Mountain West.

I will introduce the long-term factor, then merge this with an explanation of the short-term factor.

The long-term factor can actually be separated into two sections: the changing nature of the United States economy and how that is favorable to the Mountain West, and the changing age and limited availability of labor in the United States.

The first is the changing nature of the U.S. economy. For most of the 200-plus years of this nation's development, the industrial revolution was the economic umbrella that dictated population distribution. That industrial environment demanded large quantities of labor, massed together in urban settings, working in factories on assembly lines

to produce large physical products, i.e., machines and other industrial goods. That economic environment demanded those large physical outputs be shipped cheaply and easily, preferably using rivers, lakes, and oceans. Good roads over flat land were also a plus when water was unavailable. In this economic environment, mountains were a hindrance, not an asset. Therefore, for most of this country's development, the mountainous region of the western United States remained underdeveloped and underpopulated.

However, one can make the argument that this mountain region is one of the most beautiful and desirable parts of the country. But will the economy allow for large settlement and commerce? The new answer to that ques-

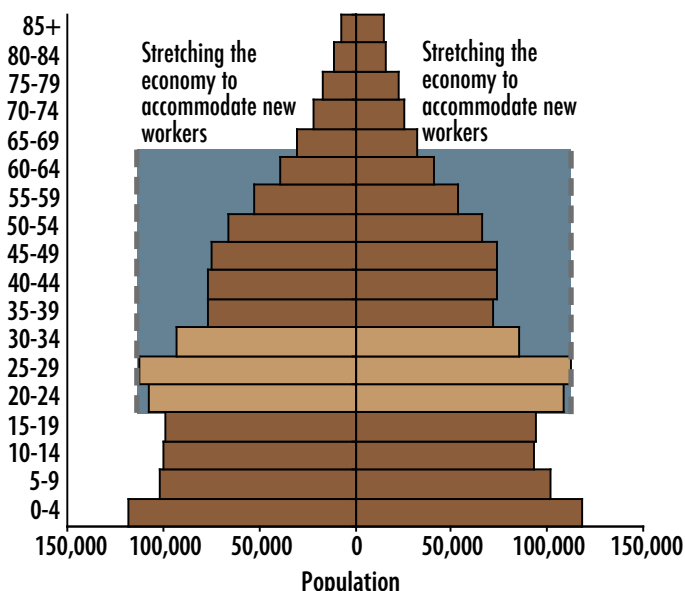
tion is yes, and that answer is having a profound influence upon Utah and its long-term growth.

The industrial revolution itself has matured to the point where even it has overcome mountain barriers. With improved highways and related infrastructure, improved trucks and pulling power, and expanding and affordable air transportation, the mountains are not as formidable a barrier. Also, with the emergence of another economic option—information and communication centered upon the Internet—mountains are anything but a barrier to this expanding commerce genre.

The bottom line is that the economy has changed, and that change has opened the doors for expanding popu-

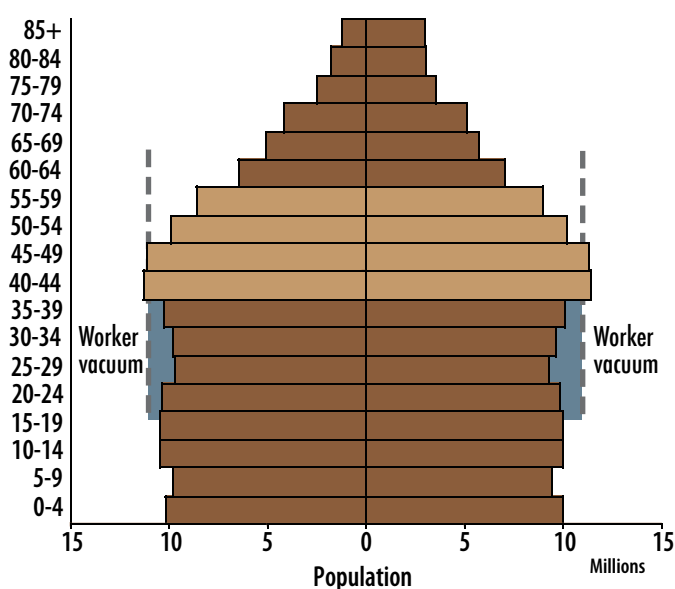
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Utah's Population by Age and Sex: 2005



Dominating the Labor Force

U.S. Population by Age and Sex: 2005



Source: U.S. Bureau of the Census.

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lation and commerce in the Mountain West. With Utah lying in the heart of this region, the moral of the story is that what Utah is experiencing, in terms of population growth and its resultant economic expansion, is not just a one-time or short-term phenomenon. Instead, it is a change that is only beginning, and will continue to be, a driving and dominant factor in the development and composition of Utah for many decades to come. Within this long-term framework will be periods of boom and slowdown, but the long-term trend is for continual economic growth.

The second section within the long-term framework is the labor composition of the United States economy. This is represented by the right hand population tree illustrated in the graphic on the preceding page. You will notice that the older age group of 40-to-55-year-olds dominates the United States labor force. This is the core of the Baby Boomers. You will also notice how none of the age structures below match the Baby Boom size. The Boomers long ago forced the U.S. economy to stretch to accommodate their presence. Yet, for various reasons, the Baby Boomers did not reproduce themselves in equal or greater numbers. This has created a vacuum, so to speak, of replacement workers. This vacuum is just beginning to have a profound economic impact on not just the United States, but also upon Utah.

The first stage on which this replacement-worker vacuum is manifesting itself is in the low-skill arena. By virtue of education and experience, Boomers moved beyond these types of jobs long

ago. Today's younger domestic workers aren't of sufficient number to fill these low-skill jobs. With the dearth of replacement workers, they have better options available to them than did the Boomers at that age. This low-skill labor vacuum is the primary reason why this country is seeing such a strong wave of in-migration flowing from south of the border. We, as a country, are struggling with the reality that this low-skill labor vacuum has a very powerful pull.

Utah's population age tree runs counter to the U.S. tree and suggests that Utah itself doesn't have that kind of low-skill labor pull. But that would be a naive conclusion. Utah's economy is just a small component within the larger United States framework. The immigrant labor pull is very strong in the western United States, and Utah lies in the very center of this region. We have seen this labor in-migration become a growing and sizeable component of the Utah labor force over the past ten years. With the face of the aging and eventual shrinking United States labor profile, this attraction should only increase with time.

This now brings us to the short-term phenomenon currently driving the Utah economy. It is that large pool of 20-to-30-year-old Utah-born workers asking for entrance into the labor market. They are illustrated in the graphic, and it's striking how large their size is in relation to how much they are asking the Utah economy to grow.

This labor group began its entrance largely at the beginning of this decade. But the Utah economy actually had no net employment growth between 2001

and 2003. The economy wasn't letting them in. If there had to be an economic downturn, the timing may have turned out to be favorable, as many of these emerging workers were young enough to have opted to defer to college and more education while the economy was making its readjustment. But at some point they had to come forward and kick the economic door down. And that is what they have been doing for the past three years and counting. Their presence seems to have reached its crescendo in 2007. However, they are of such large size and significance that their influence will still be driving the Utah economy forward for several years to come.

One of the major keys to Utah's current powerful economic growth is that this short-term internal labor boom is combining with the long-term economic change described earlier to produce this current period of strong and, somewhat self-sustaining, economic expansion. It appears it will be several more years before this short-term demographic push runs its course and Utah's economy returns to being influenced by its long-term economic factors. ①



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